

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
AUDITOR'S REPORT ON COMPLIANCE
COMMENTS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2004

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SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

BOARD MEMBERS

Sandy Elmore, Chairperson	Ft. Madison Community Schools
Ed Chabal, Vice Chairperson	Mt. Pleasant Comm. Schools
James Sleister, Secretary	West Burlington Comm. Schools
Marlene Stoutner, Treasurer	Keota Community Schools
John Dotson	L & M Community Schools
Greg Manske	Great River Area Education
Doug Graber	Morning Sun Community Schools
Roger Macklem	Pekin Community Schools
Jack Turner	Keokuk Catholic Schools
Michelle Foster	Southeastern Comm. College
Deb Trine	Burlington Area Catholic Schools

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Southeast Iowa Schools Health Care Plan

We have audited the accompanying financial statements of the Southeast Iowa Schools Health Care Plan (a common pool of funds) for the year ended June 30, 2004. These financial statements are the responsibility of the Plan's Board Members. Our responsibility is to express an opinion on financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administrator, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Iowa Schools Health Care Plan as of June 30, 2004, and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 5, during the year ended June 30, 2004, the Southeast Iowa Schools Health Care Plan adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosure.

In accordance with Government Auditing Standards, we have also issued a report dated October 19, 2004 on our consideration of the Southeast Iowa Schools Health Care Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Managements Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Nolte . Cornman ? Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa
October 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Southeast Iowa Schools Health Care Plan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Plan's operating revenues for the Business Type Activities increased 16%, or \$912,629, from fiscal 2003 to fiscal 2004. The Plan added a Partial Self-Funded Benefit plan that increased revenues.
The Plan's operating revenues for the Fiduciary Fund increased 5%, or \$37,253, from fiscal 2003 to fiscal 2004. 125 Plan deposits increased from fiscal 2003 to fiscal 2004.
- The Plan's operating expenses for the Business Type Activities were 9%, or \$531,903, more in fiscal 2004 than in fiscal 2003. The Plan's operating expenses for the Fiduciary Fund were 1%, or \$6,369, more in fiscal 2004 than in fiscal 2003.
- The Plan's net assets in the Business Type Activities increased 221%, or \$388,666, from June 30, 2003 to June 30, 2004. The Plan's net assets in the Fiduciary Fund decreased 35%, or \$28,502, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Southeast Iowa Schools Health Care Plan has Business Type Activities and a Fiduciary Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Southeast Iowa Schools Health Care Plan's basic financial Statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Plan's financial activities.

The Statement of Net Assets presents information on the Plan's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basis statement of activities for proprietary funds. This statement presents information on the Plan's operating revenues and expenses, non-operating revenues and expenses and whether the Plan's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Plan's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Plan financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provide in the basic financial statements.

FINANCIAL ANALYSIS OF THE SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Plan's financial position. The Plan's net assets for fiscal 2004 for the Business Type Activities totaled \$710,783. This compares to \$322,117 for fiscal 2003. A summary of the Plan's Business Type Activities net assets are presented below.

	Condensed Statement of Net Assets	
	Business Type Activities	
	June 30,	
	2004	2003
Current assets	\$ 710,783	322,117
Total assets	710,783	322,117
Current liabilities	0	13,056
Total liabilities	0	13,056
Net assets:		
Unrestricted	710,783	309,061
Total net assets	\$ 710,783	309,061

Statement of Revenues, Expenses and Change in Net Assets

Operating revenues are received for insurance premiums from the member groups. Operating expenses are expenses paid to members for benefits and claims. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

	Changes in Net Assets		
	Business Type Activities		Total
	Year ended June 30,		Change
	2004	2003	2003-04
Operating Revenues:			
Charges for services	\$ 6,790,905	5,878,276	15.53%
Total operating revenues	6,790,905	5,878,276	15.53%
Operating expenses			
Premium - Health insurance	5,358,575	5,342,266	0.31%
Vision claims	61,428	73,175	-16.05%
Wrap claims	113,234	98,063	15.47%
TPA Administration fee	99,784	29,684	236.15%
Premium - Basic Group Life	106,548	105,569	0.93%
Premium - Long-Term Disability	206,272	202,783	1.72%
PSF claims	437,501	0	100.00%
Miscellaneous	5,841	5,740	1.76%
Total operating expenses	6,389,183	5,857,280	9.08%
Change in net assets	401,722	20,996	1813.33%
Net assets beginning of year	309,061	288,065	7.29%
Net assets end of year	\$ 710,783	309,061	129.98%

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal 2004, operating revenues in the Business Type Activities increased by \$912,629, or 15.53%, primarily a result of establishing a partially self funded program during the year that had benefits of \$660,056.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes charges for services reduced by payments for goods and services.

ECONOMIC FACTORS

- The future of Southeast Iowa Schools Health Care Plan depends on the continuing participation by schools and the usage of programs.

CONTACTING THE SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Plan's finances and to show the Plan's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Southeast Iowa Schools Health Care Plan, 214 N. Main Street, P.O. Box 1053, Burlington, Iowa.

FINANCIAL STATEMENTS

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
STATEMENT OF NET ASSETS
BUSINESS TYPE ACTIVITIES
JUNE 30, 2004

ASSETS:	
Cash	\$ 693,177
Receivables:	
Accounts	17,606
TOTAL ASSETS	<u>710,783</u>
LIABILITIES:	<u>0</u>
NET ASSETS:	
Unrestricted	<u>\$ 710,783</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
BUSINESS TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2004

Operating revenues:	
Charges for service	<u>\$ 6,790,905</u>
Operating expenses:	
Premium - Health insurance	5,358,575
Vision claims	61,428
Wrap claims	113,234
TPA Administration fee	99,784
Premium - Basic Group Life	106,548
Premium - Long-Term Disability	206,272
PSF claims	437,501
Miscellaneous	5,841
Total operating expenses	<u>6,389,183</u>
Change in net assets	<u>401,722</u>
Net assets beginning of year	<u>309,061</u>
Net assets end of year	<u><u>\$ 710,783</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:	
Cash received from charges for services	\$ 6,761,943
Cash paid to suppliers for goods and services	(6,390,883)
Net cash provided by operating activities	<u>371,060</u>
Net increase in cash and cash equivalents	371,060
Cash and cash equivalents beginning of year	<u>322,117</u>
Cash and cash equivalents end of year	<u><u>\$ 693,177</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Change in net assets	\$ 401,722
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(17,606)
Decrease in deferred revenue	(11,356)
Decrease in accounts payable	<u>(1,700)</u>
Net cash provided by operating activities	<u><u>\$ 371,060</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

ASSETS:	
Cash and pooled investments	\$ <u>57,463</u>
LIABILITIES:	
Accounts payable	<u>4,091</u>
NET ASSETS:	
Unrestricted	\$ <u><u>53,372</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

Additions:		
Local sources:		
125 Plan deposits	\$	<u>738,484</u>
Deductions:		
Support services:		
125 Plan withdrawals		<u>722,214</u>
Change in net assets		16,270
Net assets beginning of year		<u>37,102</u>
Net assets end of year	\$	<u><u>53,372</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

(1) Summary of Significant Accounting Policies

The Southeast Iowa Schools Health Care Plan is a voluntary joint undertaking of units of government to create and maintain a self-funded health benefits program through cooperative action with private agencies, as authorized by Chapter 28E of the Code of Iowa. The Plan maintains a fully funded health and dental plan. The vision benefit plan continues to be self funded. The plan will continue to be a cooperative effort to achieve financial savings to participants while providing health care benefits to their respective employees.

The Southeast Iowa Schools Health Care Plan is composed of one representative from each of the eleven member groups. The member groups are: Ft. Madison Community Schools, Mt. Pleasant Community Schools, West Burlington Community Schools, Keota Community Schools, L & M Community Schools, Great River Area Education, Morning Sun Community Schools, Pekin Community Schools, Keokuk Catholic Schools, Southeastern Community College and Burlington Area Catholic Schools.

The Southeast Iowa Schools Health Care Plan's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southeast Iowa Schools Health Care Plan has included all funds, organizations, agencies, boards, commissions and authorities. The Plan has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Plan is such that exclusion would cause the Plan's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Plan to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the Plan. Southeast Iowa Schools Health Care Plan has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Southeast Iowa Schools Health Care Plan are organized as Business Type Activities and as Fiduciary Fund. The Business Type Activities are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy,

management control, accountability or other purposes. The Fiduciary Fund is used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Plan applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

C. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Plan considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Income Tax Status - The Southeast Iowa Schools Health Care Plan is not a legal entity but a self-funded health benefits program funded by a common pool of funds as authorized by Chapter 28E of the Code of Iowa. Any tax liability that would occur would be the responsibility of the participating agencies.

Capital Assets - As stated in Section 4, Article XVI of the 28E agreement of the Southeast Iowa Schools Health Care Plan, no property, real or personal, shall be acquired or held, except for a common pool of trust funds supporting the self-funded health benefits program.

(2) **Cash and Investments**

The Southeast Iowa Schools Health Care Plan's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Plan is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposits or other evidences of deposit at federally insured depository institutions approved by the Plan; prime eligible bankers acceptances; certain high rated

commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Southeast Iowa Schools Health Care Plan had investments in the Iowa Schools Joint Investment Trust of \$124,433 at June 30, 2004.

(3) Third Party Administrative Fee

The Southeast Iowa Schools Health Care Plan has an agreement with Employee Benefit Systems, Corporation, to administer the plan and Process claims. The agreement provides for the payment of Administrative fees. Administration fees paid to Employee Benefit Systems, Corporation, for the year ended June 30, 2004 totaled \$99,784.

(4) Risk Management

The Plan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Plan assumes liability for any deductibles and claims in excess of coverage limitations.

(5) Accounting Change

For the year ended June 30, 2004, the Plan implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these standards had no effect on the beginning balance of the Plan.

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Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board Members of
Southeast Iowa Schools Health Care Plan:

We have audited the financial statements of the Southeast Iowa Schools Health Care Plan as of and for the year ended June 30, 2004, and have issued our report thereon dated October 19, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed test of its compliance with certain with laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Plan's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Plan. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Plan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. No reportable conditions were noted.

Members American Institute & Iowa Society of Certified Public Accountants

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the use of the Board Members of the Southeast Iowa Schools Health Care Plan and appropriate regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Iowa Health Care Plan during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa
October 19, 2004

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories is on file. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Disbursements from Plan Fund - We noted no expenditures from the Plan Fund other than those allowed by Chapter 35.20(2)f of the Iowa Administrative Code.
- (3) Business Transactions with Related Parties - No business transactions between the Plan and related parties were noted.
- (4) Bond Coverage - Surety bond coverage of officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (4) Board Minutes - No items were found that we believe should have been approved in the board minutes but were not.
- (5) Deposits and Investments - The 28E Organization complied with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Organization's Investment policy.